

Message Text

UNCLASSIFIED

PAGE 01 LONDON 02204 01 OF 03 111759Z

46

ACTION EB-07

INFO OCT-01 EUR-12 EA-09 NEA-10 IO-11 ISO-00 AGR-10 CEA-01

CIAE-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01

XMB-04 OPIC-06 /146 W

----- 032176

R 111749Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8917

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 02204

DEPARTMENT PAQS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 02204 01 OF 03 111759Z

SUBJECT: ECONOMIC DEVELOPMENTS DURING THE PERIOD FEBRU-

ARY 5 TO FEBRUARY 11

SUMMARY: THE OPENING SKIRMISHES BETWEEN THE GOVERNMENT AND ORGANIZED LABOR OVER THE SHAPE OF THE NEXT PHASE OF INCOMES POLICY AND THE NATURE OF GOVERNMENT POLICY TO REDUCE UNEMPLOYMENT ARE NOW GETTING UNDERWAY. THE UNDERLYING TONE OF THE ECONOMY CONTINUES TO IMPROVE WITH WHOLESALE PRICES SHOWING FURTHER MODERATION AND INTEREST RATES DECLINING. THERE ARE FURTHER ENCOURAGING SIGNS IN THE BEHAVIOR OF CAR SALES AND CONSUMER CREDIT. END SUMMARY.

1. TUC LOBBIES FOR REFLATION. PRESS LEAKS OF DRAFT SECTIONS OF THE TRADES UNION CONGRESS (TUC) ANNUAL ECONOMIC POLICY REVIEW DUE AT THE END OF THIS MONTH REVEAL THAT THE TUC WILL PRESS THE CHANCELLOR FOR INCREASED PUBLIC EXPENDITURES AND IMPORT CONTROLS WITH REAL TEETH IN RETURN FOR THE COOPERATION OF ORGANIZED LABOR IN THE NEXT STAGE OF INCOMES POLICY. WHILE THE LEAKS ARE BASED ON PRELIMINARY DRAFTS WHICH ARE SUBJECT TO REVIEW AND AMENDMENT BY THE TUC ECONOMIC COMMITTEE, THEY ARE INTERESTING GUIDES TO THE THINKING OF THE LABOR UNIONS. AMONG THE POLICY PRESCRIPTIONS UNDER CONSIDERATION BY THE TUC IS A 2 BILLION POUND INCREASE IN PUBLIC EXPENDITURE SPREAD OVER PENSIONS (400 MILLION), INCREASED RESOURCES FOR THE NATIONAL ENTERPRISE BOARD (250 MILLION), ADDED FUNDS FOR JOB TRAINING (90 MILLION) AND HOUSING (60 MILLION), INCREASED FAMILY ALLOWANCES, DIRECT AND INDIRECT TAX CUTS, AND EMPLOYMENT SUBSIDIES. SUCH A PACKAGE TOGETHER WITH SELECTIVE IMPORT CONTROLS COVERING SOME 1.4 BILLION POUNDS WORTH OF IMPORTS IS DESIGNED TO INCREASE THE RATE OF ECONOMIC GROWTH BY SOME 3 PERCENTAGE POINTS OVER THAT WHICH COULD BE EXPECTED UNDER CURRENT POLICIES. THE TUC BELIEVE THAT THE RESULT COULD BE A GROWTH RATE OF 7.9 PERCENT IN GDP IN 1977 AND 6.5 PERCENT IN 1978 WHICH COULD REDUCE UNEMPLOYMENT TO THE TUC'S STATED GOAL OF 600,000 BY 1978. OTHER ELEMENTS IN THE POLICY REVIEW ARE SAID TO INCLUDE A CEILING OF 20,000 POUNDS ON ALL SALARIES, AND THE ENACTMENT OF A WEALTH TAX THIS AUTUMN.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 02204 01 OF 03 111759Z

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 02204 02 OF 03 111809Z

46

ACTION EB-07

INFO OCT-01 EUR-12 EA-09 NEA-10 IO-11 ISO-00 AGR-10 CEA-01

CIAE-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01

OPIC-06 XMB-04 /146 W

----- 032328

R 111749Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8918

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 02 OF 03 LONDON 02204

2. WHOLESALE PRICES MODERATE. THE WHOLESALE PRICE INDEX

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 02204 02 OF 03 111809Z

FOR JANUARY CMNFIRMED THE CONTINUING DECELERATION IN THE
RATE OF INFLATION. THE INDEX OF PRICES OF RAW MATERIALS

(INPUTS) PURCHASED BY MANUFACTURERS (1970 EQUALS 100) ROSE BY 0.8 PERCENT IN JANUARY TO 260.4 FROM THE DECEMBER LEVEL OF 258.4. IN THE THREE MONTHS THROUGH JANUARY THIS INDEX ROSE AT AN ANNUAL RATE OF 14.0 PERCENT. FOR THE 12 MONTHS ENDING IN JANUARY, THE RATE OF INCREASE WAS 16.8 PERCENT. THE PRICE INDEX FOR FINISHED MANUFACTURED PRODUCTS (OUTPUTS) ROSE MORE RAPIDLY IN JANUARY. AT 204.9, THE JANUARY INDEX WAS 1.7 PERCENT ABOVE THE DECEMBER LEVEL OF 201.5. THE QUARTERLY AND YEARLY CHANGES IN THE INDEX WERE 16.0 (ANNUALIZED) AND 18.4 PERCENT RESPECTIVELY. THE JUMP IN THE FINISHED GOODS INDEX REFLECTS THE IMPACT OF MANY ONE-TIME PRICE INCREASES IN INDUSTRIAL PRODUCTS COMING EARLY IN THE NEW YEAR. THIS BUNCHING OF PRICE INCREASES MAY REFLECT SOME ANTICIPATION OF THE 5 PERCENT CEILING TO BE IMPOSED ON INCREASES IN CERTAIN BASIC CONSUMER GOODS FROM FEBRUARY THROUGH JULY. NEVERTHELESS, THE ENCOURAGING SHOWING IN THE RATE OF PRICE INCREASE REFLECTS THE FIRMING OF STERLING AND THE IMPROVED BEHAVIOR OF UNIT LABOR COSTS IN THE WAKE OF THE PRESENT INCOMES POLICY.

3. JANUARY CAR SALES UNEXPECTEDLY STRONG. IN THE WAKE OF GENERALLY ACCEPTED FORECASTS OF A 20 PERCENT DECLINE IN CAR SALES FOR JANUARY 1976 FROM JANUARY 1975, THE ACTUAL FIGURES SHOWING SALES OF 130 THOUSAND UNITS IN BOTH MONTHS, I.E., NO DECLINE, CAME AS AN UNEXPECTED SURPRISE. IMPORTS ACCOUNTED FOR 31.8 PERCENT OF AUTOMOBILE SALES. BRITISH LLOYD AND FORD LEAD BRITISH PRODUCERS WITH 28.9 AND 25.4 PERCENT OF THE MARKET RESPECTIVELY WHILE CHRYSLER AND VAUXHALL EACH CLAIMED A 6.7 PERCENT SHARE. THE HIGHER JANUARY SALES HAVE CAUSED THE SOCIETY OF MOTOR MANUFACTURERS AND TRADERS TO INCREASE THEIR ESTIMATE OF CAR SALES IN 1976 FROM 1.1 TO 1.2 MILLION UNITS.

4. HIRE PURCHASE AND INSTALLMENT CREDIT. IN DECEMBER A TOTAL OF 270 MILLION POUNDS IN CONSUMER CREDIT WAS EXTENDED BY RETAILERS AND FINANCE HOUSES, A 20 MILLION POUND INCREASE OVER THE NOVEMBER FIGURE. FOR THE MONTH, THE NET CHANGE IN TOTAL OUTSTANDING DEBT WAS AN INCREASE OF UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 02204 02 OF 03 111809Z

9 MILLION POUNDS. FOR 1975 AS A WHOLE, TOTAL DEBT TO RETAILERS AND CREDIT HOUSES DROPPED BY 10 MILLION POUNDS TO 2.32 BILLION FROM THE 1974 FIGURE OF 2.33 BILLION. 1975 WAS THE SECOND CONSECUTIVE YEAR IN WHICH CUSTOMER DEBT DECLINED FROM THE 1973 PEAK OF 2.49 BILLION. THE NEGLIGIBLE CHANGE BETWEEN 1974 AND 1975 COULD INDICATE THAT CONSUMERS MAY BE MORE WILLING TO BORROW IN 1976 TO FINANCE EXPENDITURE PUT OFF IN EARLIER YEARS.

5. DECEMBER RETAIL SALES. THE RETAIL SALES INDEX (1971 EQUALS 100) FOR DECEMBER HAS BEEN REVISED UPWARD FROM THE PROVISIONAL FIGURE OF 106.5 TO 107.0. IN THE FOURTH QUARTER OF 1975 THE VOLUME OF SALES WAS 1.5 PERCENT BELOW THE AVERAGE OF THE SECOND AND THIRD QUARTERS AND 5 PERCENT BELOW THE AVERAGE OF THE FOURTH QUARTER OF 1974 AND FIRST QUARTER OF 1975. FOR 1975 AS A WHOLE, TOTAL SALES VOLUME WAS 2 PERCENT LOWER THAN IN 1974.

6. EXCHANGE RATE AND GOLD

DATE	EXCHANGE RATE(\$)	EFFECTIVE DEPRECIATION (PERCENT)	GOLD
2/4	2.0310	30.1	129.75
2/5	2.0280	30.1	128.75
2/6	2.0270	30.2	130.75
2/9	2.0280	30.3	130.00
2/10	2.0270	30.4	129.50

CHANGE 2/3-2/10 DN 0.0010 WIDENED 0.3 DN L.75

7. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/4	0.93	2.33	4.25
2/5	0.70	2.15	4.15
2/6	0.65	1.90	3.85
2/9	0.69	1.95	3.97
2/10	0.82	2.12	4.10

CHANGE 2/3-2/10 UP 0.07 DN 0.37 DN 0.35
(ALL FIGURES IN CENTS)

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 02204 03 OF 03 111805Z

46

ACTION EB-07

INFO OCT-01 EUR-12 EA-09 NEA-10 IO-11 ISO-00 AGR-10 CEA-01

CIAE-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

ITC-01 TRSE-00 USIA-15 PRS-01 SP-02 FEAE-00 OMB-01

XMB-04 OPIC-06 /146 W

----- 032364

R 111749Z FEB 76
 FM AMEMBASSY LONDON
 TO SECSTATE WASHDC 8919
 INFO AMEMBASSY BERN
 AMEMBASSY BONN
 AMEMBASSY BRUSSELS
 AMEMBASSY COPENHAGEN
 AMEMBASSY DUBLIN
 AMEMBASSY LUXEMBOURG
 AMEMBASSY NEW DELHI
 AMEMBASSY PARIS
 AMEMBASSY ROME
 AMEMBASSY STOCKHOLM
 AMEMBASSY THE HAGUE
 AMEMBASSY TOKYO
 AMCONSUL BELFAST
 AMCONSUL EDINBURGH
 USMISSION EC BRUSSELS
 USMISSION OECD PARIS
 USDEL MTN GENEVA
 USDOC WASHDC

UNCLAS SECTION 03 OF 03 LONDON 02204

8. EURODOLLAR INTEREST RATES

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 02204 03 OF 03 111805Z

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/4	4-7/8	5-3/8	6
2/5	5-1/4	5-1/2	6-1/8
2/6	5-1/8	5-1/2	6
2/9	5-1/8	5-1/2	6-1/8
2/10	5	5-5/8	6-1/4
CHANGE 2/3-2/10 DN 1/4 UP 1/4 UP 1/4			

9. LOCAL AUTHORITY DEPOSIT RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
2/4	9-7/16	9-7/16	9-1/2
2/5	9-5/16	9-5/16	9-11/16
2/6	9-1/8	9-5/32	9-1/4
2/9	9-5/32	9-5/32	9-3/16
2/10	8-7/8	9-5/32	9-9/32
CHANGE 2/3-2/10 DN 7/8 DN 13/32 DN LL/32			

10. THE MINIMUM LENDING RATE WAS REDUCED BY 1/2 PERCENT ON
 FRIDAY, FEBRUARY 6 TO 9-1/2 PERCENT. THE MLR HAS BEEN RE-

DUCED 2-1/2 PMINTS IN EIGHT STEPS SINCE MID-NOVEMBER.

MILLER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, ECONOMIC CONDITIONS, ECONOMIC REPORTS, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 11 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON02204
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760052-0290
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760260/aaaacamr.tel
Line Count: 334
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: housmasa
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 JUN 2004 by oatisao>; APPROVED <30 SEP 2004 by housmasa>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS DURING THE PERIOD FEBRU- ARY 5 TO FEBRUARY 11
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006